

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 L-03 PA-01 PRS-01 USIA-06 AID-05

CIAE-00 COME-00 EB-07 FRB-03 INR-07 NSAE-00 TRSE-00

XMB-02 OPIC-03 SP-02 CIEP-01 OMB-01 ABF-01 /056 W

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R 081015Z AUG 75

FM AMEMBASSY LISBON

TO SECSTATE WASHDC 3700

INFO AMEMBASSY LONDON

AMEMBASSY MADRID

AMEMBASSY PARIS

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E.O. 11652: N/A

TAGS: EFIN, PO, CPRS

SUBJ: BANK OF PORTUGAL ANNOUNCES RESTRICTIONS ON ESCUDO NOTE
INFLOW

BEGIN UNCLASSIFIED

1. AUGUST 7 NEWSPAPERS REPORTED THAT BANK OF PORTUGAL (BOP)
ISSUED PRESS RELEASE PREVIOUS DAY ANNOUNCING RESTRICTIONS ON
BOP ACCEPTANCE OF ESCUDO NOTES FROM FOREIGN BANKS. ACCORDING
TO PRESS REPORTS, BOP WILL CREDIT ESCUDO NOTES TO LOCAL ESCUDO
ACCOUNTS OF FOREIGN BANKS ONLY IF LATTER PROVE THAT NOTES WERE
ACQUIRED FROM PORTUGUESE RESIDENTS TRAVELING ABROAD. PROOF
WILL CONST OF:

1. NAME OF PORTUGUESE RESIDENT FROM WHOM NOTES WERE
PURCHASED;
2. HIS PASSPORT NUMBER; AND
3. AMOUNT PURCHASED FROM HIM.

IN ABSENCE OF SUCH INFORMATION, ESCUDO NOTES WILL BE CREDITED
TO SPECIAL ACCOUNT AGAINST WHICH FOREIGN BANKS WILL BE ABLE TO
DRAW, WITH PRIOR AUTHORIZATION FROM BOP, ONLY FOR PAYMENT TO
RESIDENTS IN PORTUGAL.

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2. BOP JUSTIFIED THIS MOVE ON GROUNDS THAT INFLOW OF NOTES DURING SIX MONTHS ENDING JUNE 30, 1975, AMOUNTED TO 1.6 BILLION ESCUDOS (APPROXIMATELY US\$62.7 MILLION), OR MORE THAN TOTAL FOR ALL OF 1974. THIS INFLOW, BOP CLAIMED, WAS AN EXCESSIVELY LARGE DRAIN ON PORTUGAL'S DWINDLING EXCHANGE RESERVES. INFLOW ATTRIBUTED TO PROFESSIONALLY-ORGANIZED ILLEGAL EXPORT OF CAPITAL. FREQUENT RECEIPT OF NOTES IN LARGE QUANTITIES, IN SEQUENTIAL NUMBERS, AND STILL IN ORIGINAL WRAPPERS OF BOP TENDS, IT CLAIMED, TO CORROBORATE THIS CONCLUSION.
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3. COMMENT: CONCERNED BY LARGE NOTE INFLOWS, BOP HAS DURING PAST MONTH DELAYED UNUSUALLY LONG PERIOD IN CREDITING LOCAL ACCOUNTS OF FOREIGN BANKS REMITTING THE ESCUDOS. MEASURE ANNOUNCED AUGUST 6 APPARENTLY REPRESENTS GOP DECISION ON HOW TO HANDLE THIS MATTER. LARGE NOTE INFLOW BASICALLY CONFIRMS THAT PORTUGUESE RESIDENTS HAVE DECIDED TO CONVERT THEIR LARGE NOTE HOLDINGS INTO FOREIGN ASSETS AND, EQUALLY IMPORTANT, HAVE FOUND MEANS FOR DOING SO. THIS CAPITAL FLIGHT AND BOP AUGUST 6 MEASURES WILL LIKELY STIMULATE EXPANSION OF DOMESTIC PARALLEL MARKET AND ACCELERATE ESCUDO DEPRECIATION ABROAD, WHERE RATE ALREADY REPORTEDLY EXCEEDS ESCUDO 30/US\$1.
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